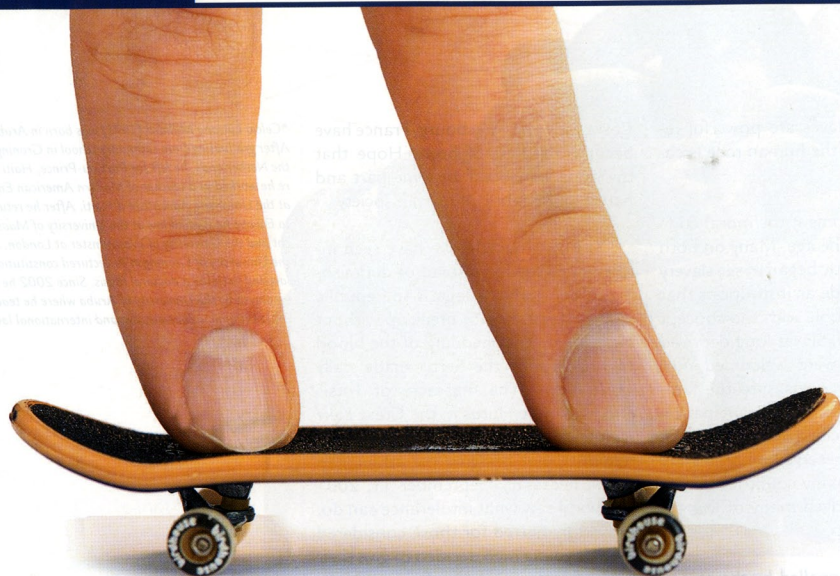




THE IMPORTANCE OF POLITICAL STABILITY FOR A HEALTHY ECONOMY

Many countries in Latin America went through periods of political disturbance. During the twentieth century many had to deal with authoritarian regimes that didn't have democratic principles high on their agendas. Other parts of the world like Eastern Europe and Africa faced the same challenges. The main focus of these governments was the concentration of power and a centralization of the government decision making. A state led economy.

Under these authoritarian regimes many private companies had to deal with the nationalization by the government. Nationalization refers to appropriation of a private entity by a government. This brought enormous

uncertainty among investors. Investors usually look for stable economies, lean government services, political stability, a tax friendly environment (through incentives) and a dependable legal system. This article focuses on the importance of political stability for the economic growth in a country.

According to several studies conducted on the relationship (correlation) between economic growth and political stability, it can be suggested that unstable political regimes hamper growth, whereas stable political systems act as a catalyst for growth. (American Journal of Applied Sciences, March 2008).

Some other studies suggest that political instability retards

growth and development, directly lowering total factor productivity. Other conclusions according to research are that measures for political instability, such as coups, revolution, and political assassinations, are inversely correlated with the growth of the Gross Domestic Product (GDP) and investment share of the GDP. In other words the influence of political stability on a healthy economy is without any doubt present. This marriage between the economy and politics is called "politicalization of the economic growth".

To understand the importance of political stability we must understand the meaning of political stability. According to (economic) literature politi-

cal stability is described as and interlinked to the longevity of a government, together with the repeated peaceful transfer of power, without civil war or other internal upheaval. The important factor to understand a political stable system is the longevity of a ruling authority; it refers to the ruling for a long period without any major political turmoil. In economics "political stability" is defined in another way than in political science, which is (in my opinion) an incomplete definition. You have to take factors such as the extent of democracy, political rights and the division of powers (*Trias Politica*) into consideration, while describing economic development.

Many leaders in the world acknowledge the importance of political stability for development in their respective countries.

President Lee Myung-bak of South Korea recently stated that political stability and national unity are prerequisites to South Korea overcoming the lingering global economic crisis. "At this moment, we're desperately in need of political stability. It is urgently necessary if the nation wants to grow into an advanced economy."

President General Pervez Musharraf (Pakistan) called on political power holders in the country to maintain a stable political environment for continuity, sustainability of development policies and make Vision 2030 a reality.

According to the National Security Strategy of the United States of America, political instability is one of the greatest challenges for Africa. America should focus on the increase in capacity of the region to deal with political instability, by strengthening the region's capacity to police itself with support from outside stakeholders through a strategy focused on bilateral diplomacy and coalitions of the willing, anchored by regional powers such as South Africa and Nigeria.

How does political stability contribute to the economic development of a country?

In some countries in the region it's customary that with the change of a government (through elections) many people loses their job and "go home" together with the sitting political party. The old apparatus is replaced by new people. This development works counterproductive to continuity in government plans and policies. With a stagnant government service, the economy looses money on a daily basis.

Not only the government apparatus is important for the continuity but also the opposing political parties are responsible for political continuity. The channels of dialogue among opposing parties have to remain open in order to guarantee that there is no stagnation in (healthy) projects.

Investors all over the world look for places to invest their money. Political stability in a nation is a crucial factor for a sound investment climate. Investors are not willing to take the risk of loosing their investment because of revolts or ad hoc political decisions that might influence the investments in a negative way. The term political consistency is here related to stable political decisions. In this sense transparency also is a very important factor. Transparency and political consistency stimulates the relationship between the private and the public sector.

According to the great political philosopher of the Enlightenment Baron de Montesquieu, Charles-Louis de Secondat, the best way for a government to give liberty to its citizen is through a system of Checks and Balances. When several bodies or persons check on

one another, the concentration of power becomes more difficult. The system should be divided in the executive, legislative, and judicial powers of government.

The abovementioned division is still applicable today. In a system where stakeholders of the economy feel that their rights are represented duly, and that there is no involvement or (political) pressure on the system, they feel more comfortable to invest. A well structured judicial system enhances the credibility and dependability in the system. Politicians in this case could contribute to the stability by respecting the work areas of the several powers.

This article reflects (in short) the importance of political stability for a well functioning society. Terms as political consistency and continuity are interrelated to political stability. Confidence in a system is of the utmost importance for the economic growth in a nation. Transparency stimulates confidence. For an island such as Aruba, political stability is a crucial factor of success. As a tourist based economy Aruba is extremely vulnerable for political turmoil and unrest. Regional stability is important to our economic development. As part of the Kingdom of the Netherlands and having a well developed judicial system in place, the economic development will continue its path into the right direction. ■

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